



# Banking Sector News

Vol. 2, No. 1

**An Overview of the Banking Activities Throughout the Region**

## BANK SUPERVISION CONFERENCE HIGHLIGHTS

**U**SAID hosted its fifth annual Bank Supervision Conference July 6-7, 2000, in Warsaw, Poland. This year's conference drew about 200 participants, bringing together senior officials from bank regulatory authorities in almost twenty countries of Central and Eastern Europe (CEE) and the New Independent States (NIS), U.S. and European bank regulatory authorities, bank supervision and restructuring experts, International Financial Institutions (IFIs), U.S. Treasury, and USAID.

The agenda, which centered on implementing international standards and best practices, focused on three key elements of high priority to bank regulatory authorities in transition and emerging markets: (1) latest developments regarding the 25 Basle Committee Core Principles of Bank Supervision; (2) consolidated supervision, including the hot issue of establishing a supra-regulator; and (3) policies and techniques for managing financial problems, including prompt corrective action, the role of deposit insurance, problem bank resolution, bank liquidation and asset management.

The speakers and panelists included some of the most distinguished representatives from bank supervision and restructuring worldwide, including: (1) Robert Clarke, Partner, Bracewell and Patterson, and former Comptroller of the Currency; (2) David Cooke, currently a Managing Director at Barents working in CEE/NIS and Asia, and former Executive Director and CEO of the Resolution Trust Corporation (RTC); (3) Elizabeth Roberts, Director of the Financial Stability Institute (newly formed by the G-7 and Bank of International Settlements [BIS]), and former Federal Reserve official; (4) Stephen Hoffman, Deputy Associate Director of Supervision Operations of the Board of Governors, Federal Reserve System; (5) Jim Sexton, Director of

Bank Supervision, FDIC; (6) Clive Briault, Director of Policy, U.K. Financial Services Authority.

The Bank Supervision Conference was followed by a third day designed for USAID officials and bank supervision experts and advisors. The goal was twofold: (1) using discussions of the previous two days, to improve and refine our banking sector technical assistance (TA); and (2) moving beyond bank supervision, to stimulate discussion of how TA can help to promote functioning banking sectors.

There was a consensus that growth of sustainable lending in the majority of Europe and Eurasia (E&E) countries will require the implementation of broader reforms. Three areas were stressed repeatedly: (1) implementation of Internal Accounting Standards (IAS); (2) tax reform/elimination of confiscatory regimes which contributes to informal financial circuits and undermine the banks; and (3) developing the legal structure including judicial training.

This conference was attended by bank supervision officials from the region: Albania, Bosnia, Bulgaria, Croatia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, Slovakia, Montenegro, Kosovo, Armenia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, and Russia. ■

**This newsletter summarizes recent developments and prospective plans of USAID's banking sector program for Central and Eastern Europe, and the countries of the former Soviet Union. We hope this newsletter will give our colleagues at other U.S. Government Agencies and International Organizations a broadstroke summary of our work. The aim of this newsletter is to promote greater communication for those involved in similar activities in different countries.**

## COUNTRY BRIEFS

### ALBANIA

In collaboration with the World Bank, USAID is supporting efforts to develop a legal and regulatory framework for Savings and Credit Associations (SCA) in Albania. Regulatory oversight authority for some 200 of these small institutions is now the responsibility of the Bank Of Albania (BOA). Terry Blagg, the USAID resident advisor, is working in collaboration with other donor agencies to assist the BOA staff in designing inspection procedures and in developing regulations commensurate with the risks associated with SCA activities. These types of institutions have emerged throughout the region, although most have evolved absent any formalized regulatory oversight. Although both small in size and in proportion to the total assets in the financial sector, failure of one could spread quickly to other such entities, and ultimately undermine the public's confidence in the entire financial sector. Thus, a solid legal and regulatory framework is of the utmost importance to the donor community. ■

USAID/Tirana: Robert Posner

USAID/Washington: Rebecca Richards-Webb

### ARMENIA

During the first quarter of 2001, additional technical assistance will be provided for both legal and accounting development. In the legal area, a USAID-funded regulatory lawyer will help develop amendments to the "Banks and Banking Law" and to the "Law on Bankruptcy." The legal advisor will also focus on strengthening the Central Bank of Armenia (CBA) regulations on problem assets and provisioning. The USAID accounting advisor will provide assistance to the Chief Accountant of the CBA. The IAS-based chart of accounts for commercial banks was put in place in January 1998. The USAID advisor will focus on some key areas in the chart of accounts, which still are not in compliance with IAS. Additionally, the accounting advisor will develop accounting regulations consistent with IAS, in such key areas as foreign exchange and fixed asset valuation. ■

USAID/Yerevan: Haikianush Bagratunyan

USAID/Washington: Laurie Landy

### BULGARIA

#### On-site Supervision

USAID's on-site technical assistance program continues to focus on the development of a skilled on-site examination staff. Recent attention has been placed on assisting senior supervisory management in dealing with

individual deteriorating banks. Specific guidance has been provided in preparing corrective administrative documents for each bank. The USAID resident on-site advisor will participate, as a speaker and as a panel member, in an upcoming bank fraud seminar hosted by USAID and "World Learning."

#### Off-site Supervision

During 2000, USAID advisors focused their efforts on establishing an off-site supervisory process that promotes risk-based supervision. Advisors, in collaboration with local counterparts, formulated and implemented a streamlined, off-site analytical review framework, which is largely consistent with internationally accepted practices. During 2001, USAID advisors will continue work on refining the early warning system. Other priorities include developing an off-site manual, better linking of off- and on-site supervisory departments, and ongoing training/development of off-site staff.

#### Bank Privatization

Five down and one to go! The USAID team at the Bank Consolidation Corporation (BCC) spent much effort during the second half of September in finalizing the sale of Bulbank. This is the largest bank privatized to date. Despite some last minute obstacles imposed by the bank's management, the BCC successfully completed the sale on October 2, 2000, to the Italian bank UniCredito. ■

USAID/Bulgaria: Ragna Dimitrova

USAID/Washington: Jean Lange

### CENTRAL ASIAN REPUBLICS

The National Bank of Kazakhstan (NBKR) has proposed legislation to consolidate banking supervision. The final legislation most likely will support a functional regulatory approach. This is best described as a committee, comprised of representatives from each financial service regulator, whose mandate is to exchange financial information, determine standardized approaches toward oversight and reporting, and coordinate policy implementation. USAID advisor Bryan Stirewalt has provided extensive technical input to the NBKR's efforts to design a solid legal and operation framework.

David Hawkins, the resident advisor in Uzbekistan, continues to provide technical assistance to the National Bank of Uzbekistan. His principal focus is on strengthening the on-site supervisory process and updating the on-site supervisory tools. On-site inspections are being performed using the CAMEL methodology. The inspec-

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tion teams continue to improve their skills in assigning composite ratings based on this methodology. ■

USAID/Almaty: Lewis Tatem

USAID/Washington: Rebecca Richards-Webb

### GEORGIA

The conversion of the Georgian banking system to IAS took place January 1, 2001. Mr. Thomas Gordon joined the USAID project in August 2000 to help the National Bank of Georgia in the preparatory work for the IAS conversion. Mr. Gordon works directly with the Accounting Methodology Department of the National Bank of Georgia. He is also working with a European Union (EU) Tacis team of foreign consultants who are focused on individual banks. In January, USAID brought in two additional accountants to work with individual banks as the EU Tacis support ends. Inadequate financial information from the commercial banks is currently an important problem limiting the efficacy of the National Bank of Georgia's bank supervision. ■

USAID/Georgia: Geoff Minott

USAID/Washington: Laurie Landy

### MACEDONIA

#### Commercial Banks

In January 2000, the Macedonian banking project broadened its scope beyond bank supervision assistance to include work with commercial banks. The primary objectives were: the establishment of a comprehensive and effective risk management system; development of appropriate credit management; improvement in information technology and management information systems; and, the incorporation of IAS and practices. Last year's activities included a seminar on credit risk management that was coordinated with USAID/Macedonia's accounting reform project and another seminar on the hot topic of "e-banking" to alert Macedonian bankers to the advantages and risks. This year's focus will be on working with banks in developing risk management systems that enable senior bank management to assess and manage their bank's exposure to all risks. USAID will also assist in the development of the deposit insurance system.

#### Bank Supervision

Work with the National Bank of Macedonia also continues. The focus is on assisting the Bank Supervisory Department to both comply with, and functionally implement the Basle Core Principles of Supervision. One important achievement last year was the develop-

ment of procedures for the newly established divisions within the Supervision Department for problem bank work and for methodology. As a result of changes to the Banking Law in the summer of 2000, the National Bank of Macedonia will be taking additional steps to strengthen its monitoring and enforcement abilities. H. Peers Brewer is the project's Chief of Party. ■

USAID/Skopje: Caroline Brearley

USAID/Washington: Victoria Wohlsen

### ROMANIA

With the May 2000 failure of the largest credit cooperative in Romania, and the resulting loss of depositors' money, the Government Of Romania (GOR) has appointed the National Bank of Romania (NBR) as the regulatory authority over the approximately 900 unregulated credit cooperative institutions. The appropriate framework for regulating these cooperatives is crucial to successfully integrating them into the financial system. The USAID resident advisors - Kat Woolford and John Ewald, are assisting the NBR to achieve a seamless integration by tailoring an appropriate framework to supervise the credit coops. In an effort to quell further failures of these cooperatives, the NBR has designed a law on credit cooperatives that subsequently has been submitted to the Parliament.

In collaboration with the IMF staff, the two USAID advisors have recently completed a Basle Core Principles Evaluation of the NBR bank supervision. The results of this exercise will serve as a baseline in helping to evaluate the progress made by the NBR, Bank Supervision Department. The methodology developed for the evaluation may also be used for other similar evaluations. ■

USAID/Bucharest: Dan Anghel

USAID/Washington: Rebecca Richards-Webb

### SLOVAKIA

In conjunction with the World Bank and EU PHARE, USAID is providing support for privatization of the largest Slovak state-owned banks and for resolution of their associated bad loan portfolios. The Slovak government has established the Slovak Consolidation Agency (SKA) which has purchased roughly \$2 billion of banks' classified loans. USAID assistance is being provided to manage these assets while under the control of the SKA and to support the pooling and tender of these assets to third parties for ultimate resolution. Sale of the first loan pool is expected in early 2001. The VUB and Slovak

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Savings Bank will be privatized during the first half of this year as well. ■

USAID/Bratislava: Zuzana Licakova

USAID/Washington: Lawrence Camp

## UKRAINE

On November 27-29, 2000, a conference to discuss cooperation between NIS and European bank training centers was held in Kiev. There were participants from bank training institutes in Western Europe, Poland, and the former Soviet Union. Also attending were representatives of Ukrainian banks. The conference gave birth to the Association of National Bank Training Institutions of Former Soviet Countries. The delegates chose Kiev as the base for the association, and as President, Mr. Alexander Geyets, the Director of the Ukrainian National Center for Training Bank Personnel (NCTBP). The National Bank of Ukraine and the Association of Commercial Banks of Ukraine founded the NCTBP in 1994. USAID provided technical assistance to this Ukrainian bank training center from its inception until August 2000. ■

USAID/Kiev: Boris von Hoffmann

USAID/Washington: Laurie Landy

## Banking Sector News

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